

Handling the Global Financial Crisis: Chinese Strategy and Policy Response

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ABSTRACT

The global financial crisis has hit China hard. In response, China formulated a strategy that deals with effects of the immediate crisis in the real economy i, and looks for opportunities in the meantime. The overwhelming emphasis is placed on expanding domestic demand to fuel growth. Following this strategy, China has rolled out a comprehensive package that provides extensive fiscal support for infrastructure and public service projects. But, the Chinese monetary stimulus is actually more powerful. After several rounds of rate cuts, the Chinese version of quantitative easing is taking central stage. China's dealing with the current financial crisis is unassuming but the Chinese approach seems to be working. However, fundamental problems in China's structure of economic growth remain to be solved. How to redress structural imbalances in the economy, to boost domestic demand, to calm down the property market and, above all, to create millions of jobs, are still the major challenges China is facing.

I. Introduction

Financial crisis is currently sweeping across the globe with devastating effects. The Chinese economy, once the star performer on the world stage, proves not crisis-proof and cracks are already emerging under the pressure of the downturn of the world. The dynamism of China's export is losing its steam and the vigour of economic growth is fading. As a result, Chinese jobs are suffering, and social tensions have brewed. Equally alarming is the fact that the falling economic conditions have stirred up questions on the wisdom of the reform and opening-up policy that China has adopted for more than three decades in transforming the economy to a market one. The rising popular resentments may force the government to yield to economic nationalism, which would have world-wide repercussions (Prasad, 2009, Mile, 2009).

At the mercy of the crisis, China's growth is quick to slide. In the second quarter of 2008, China recorded a growth rate of 10.1%, down from 10.6% in the first quarter. Growth further slowed to 9% in the third quarter the lowest in five years. The figure was to further drop to 6.8% in the fourth quarter. The year-on-year growth rate for 2008 finally came to 9.0%. This result may look not too bad in an international context. However, in comparison to her own past, China in 2007 registered a growth rate of 11.4% and the average growth rate for the past 30 years was 9.7%. The Chinese economy is clearly dipping.

In the general decline of the economy, the shrinkage of China's export was

particularly dramatic. Whereas the annual growth rate of export was registered 35.7% in 2004, 23.2% in 2005, 23.8% in 2006 and 23.5% in 2007, Chinese exporters only managed to achieve a growth rate of 17.2% in 2008, the lowest for the past 5 years. In real terms, the export growth was merely 8% - 9%. In the beginning months of 2009, the situation continued to worsen, with export contracted by 21.1% on a monthly basis.

With the slowdown of the economy, Chinese jobs are suffering. Global downturn means falling demand for Chinese exports, resulting in factory closures and layoffs on a daily basis in many parts of China, especially in the Southeast. Domestically, overcapacity has long resulted in overproduction which translates as over-employment. Now the global downturn exacerbates the situation by throwing out more workers due to decelerating industrial output and reduced foreign investment, hence unemployment is climbing in China. In addition, there are annual additions to the army of job seekers including more than 6 million university graduates and at least 10 million immigrant farmers looking for a job in the city. Estimates of how many jobs have already been lost vary, but most put it at around 20 million (Economist, 19 March 2009). To make the situation worse, the Chinese economy is decelerating. According to the World Bank, the forecast growth for China is 6.5% in 2009, which tends to further reduce job opportunities. By any standards, it is no small task for China to cope with the growing pressure of unemployment.

There is another social aspect to the crisis effects. The grim economic conditions and

rising employment have stirred up questions on the wisdom of China's current policy that seeks benefits from globalization with minimum costs by decoupling from the American and world economy. Indications are that political debates are raging inside Chinese elites about this position (Mile, 2009). The bigger picture is that resentments are brewing within the Chinese population. To many, the market oriented reform and western oriented opening-up have brought about more sufferings than paybacks. The popular opinions thus are divided regarding the future direction of the nation, with very strong calls for returning to the good old days (Mile, 2009).

This is a more worrisome development in all aspects. Emerging from the closed doors of the central planning era, China has strived to open her economy to the rest of the world and to transform her economic system into a market one so as to achieve economic growth and balanced social development. The strategic thinking behind this drive is the profound belief that China stands to gain from economic and financial globalization. This conviction leads to China having formulated and adhered to a national policy that seeks to increasingly integrate China into the existing world system and to realize economic and social development within the framework of established world order (Dan, 2009).

The current financial crisis has shaken the foundation to this faith. The unfolding of the crisis has exposed that the current world order is flawed (Li, X, 2009). It also reveals the structural weaknesses and vulnerabilities of the Chinese economy under

the direction of opening up ever wider to the rest of the world (Yu, 2008). The crisis and its fallout have shown that in a world of growing integration and globalization China cannot be untouched by external shocks and downturns in the world economy. These facts push the Chinese authorities into a two front battle: to combat the calamitous effect of the ongoing crisis from outside and to prevent internal fragility evolving into a full-fledged crisis from within. The vital battle has just begun (Li, Z. 2009).

Much is therefore hinged on how well China is coping with the devastating effect of the current crisis (Prasad, 2009). If she can successfully muddle through, the world will see a more confident China that opens her arms wider for globalization. However, if fails, the rising tide of nationalism within the nation may drag China into a state in which wheels of reforms are reversed. The world then will have to face a China that is hostile to globalization with mighty forces. The implications of this are huge and the world will be affected in many ways by its adverse consequences (Yep, 2009).

It is then imperative to research into China's response to the shocking effects of the current global financial crisis and evaluate the performance of China's crisis management. In the rest of the paper, we will first introduce China's perspective on the global financial crisis, which sets the background for understanding China's strategy for crisis management in Section II. Section III will be devoted to China's financial policy and its role in dealing with the crisis. The policy package consists of

the financial stimulus and monetary measures that China has taken to mitigate the effects of the financial crisis. In Section IV, we will discuss international dimensions of China's monetary policy which are of particular note and tend to have lasting effects on international policy coordination. Section V presents the concluding remarks on China's crisis responses.

II. Chinese Perspective on the Crisis and Combating Strategy

China's response to the crisis is largely shaped by her assessment of the nature, depth and possible duration of the crisis. In agreement with international consensus, Chinese economists judge that this crisis is originated in the USA (Baily, et. al, 2008, Ceccggetti, 2008, Huang, 2009, Li, 2009). The root causes of the financial breakdown include inadequate financial regulation, the loosening of traditional precautionary methods in banking, Wall Street greed and extreme financial innovation (Yu, 2008, Zhang, B., 2008, Zhen, L. 2009). Internationally, this crisis is made possible by flaws in the international financial architecture (Li, X., 2009). These flaws include disruptive international capital movements and failure of the current international system to regulate excess financial engineering (Dan, 2009, Shao, 2009). In particular, the undisciplined dollar is the source of economic excess. The US dollar as the key international accounting unit, the means of international payments and the most important reserve asset has not been subject to international discipline as under the gold standard. This opens convenient doors for excess consumption within America,

and finally leads to global imbalances (Zhen, Z., 2008, Dan, 2009).

There has emerged a pattern of crisis dynamism in the USA and Europe. In that world, the crisis originates in the financial sector and then spreads to the real economy.

Chinese researchers believe that a similar pattern is unlikely to happen in China (Zhang, B., 2008). Given conditions in China, a full financial meltdown in China can hardly be a likely event in the near term. Thanks to financial reforms in the years prior to the outbreak of the current financial crisis, China has aggressively taken measures to recapitalize major banks, reform their corporate governance systems, and intensify banking regulations. As a result, Chinese banks are not in immediate danger of going under by bad loans and excess financial engineering that has manufactured so many toxic assets in America and Europe (Li, 2009b, Huang, 2009).

The real worry lies in China's real economy. It has an imbalanced structure that turns out to be vulnerable to financial crisis (Prasad, 2007). Despite her admirable growth record, Chinese economic growth overwhelmingly relies on three pillars, i.e. investment, export and property development (Prasad and Rajan, 2006, Yu, 2007). As a result, excess domestic investment has resulted in excess productive capacity which means tight profit margin and possibly many bad loans (He and Cao, 2007).

Overreliance on export renders Chinese growth susceptible to fluctuations of international markets (He, et. al., 2009). As in every case, the booming property market turns out to be a black hole that attracts all financial excess and fuels the

overheating of investment and excess capacity. Individually, these factors are bad enough to cause financial stress. In their combinations, these factors serve to make China's imbalance only worse and hence more susceptible to the global financial disaster. In this light, the thinking of Chinese advisers points out that rather than a US-type crisis which first starts in the financial sector and then spreads to the real economy, the Chinese one, if any, would most likely to originate in the real sector and then sparks a crisis in the financial sector. Following this thesis, to ward off the disastrous effects of the global financial crisis, the first line of defence for China has to be stabilization of output and employment. So, for China, the chief battle field against the current financial crisis is in the real sector.

The timeline of China's combat actions against the crisis reveals another interesting aspect of the Chinese perspective on the global financial crisis. China started to map out a contingent plan in June 2008, well ahead of most international capitals. More amazingly, this decision was made at the height of China's fanatic preparations for the Olympic Games, the colorful episodes around which captivated the world over. Given that this was China's greatest show of public relations for many decades, this suggests that the Chinese leadership viewed the forthcoming crisis as being more than serious.

The Chinese estimation of the possible duration of the crisis is about two years. On 12 March 2009, the Chinese Prime Minister declared that he was confident that the world economy would recover by the end of next year (People's Daily, 13 March 2009).

This discloses Chinese government's judgment, which may or may not be accurate, that the global financial crisis will turn around in about two years. This time framework means that the Chinese believe the severity of the crisis to be serious, but not as bad as the great depression in the 1930's.

Putting all these pieces together, the revealed Chinese perspective of the crisis highlights the adversity of the global financial crisis and underlines that the devastating effects warrant utmost attention of the leadership. However, the shocking crisis is unlikely to be as serious as the great depression in the 1930s. Against this backdrop, the Chinese government rolled out its plan for combating the possible hardship brought about by the financial disaster (Mu, 2008).

The Chinese strategy for fighting the crisis has three distinct dimensions. First, the focal point is to mitigate the immediate effects of the crisis with measures that buttress the real economy and will not undermine the long term health of the economy. Behind this strategy is the calculation that the current crisis has strong impact effects but moderate duration; therefore it is imperative and cost effective to concentrate on containing its short-run fallout. For one thing, this may buy China breathing room while waiting for the world downturn to bottom up, and with it the end of its adverse impacts on Chinese export as the engine of growth. Furthermore, this may prevent the effect of the global financial crisis spreading. This is obviously more important to China's management of the macro economy, this is obviously more important since, given China's structural vulnerability, it is likely that if not tamed global downturns may trigger a chain reaction in China. As a result, China may suffer from a twin crisis,

first in the real sector and then in the financial sector. So, the first key to win the battle against the crisis is to prop up the real sector to prevent the disastrous chain reaction from happening.

The second dimension of China's strategy is to proactively look for bargains or opportunities previously not available to China, particularly in the world raw material and technology markets. At full play is the Chinese traditional wisdom that believes "Where there's danger, there's opportunity." With a deep pocket in international reserves, China has been on international shopping sprees, but with carefully targeted objectives. The aggressive buying covers such a range from oil, resource commodities to advanced technology, anything essential to her long term development. European produces are placed particularly high on the shopping list of Chinese delegations. It is understandable that China takes advantage of eager intentions of countries in recession of exporting out of the downturn. Less palpable is China's intent of deploying her buying power to make strategic moves on the international arena. By strategic buying, China shows it is mission impossible to block China, and a united international line is impossible in front of the Chinese power of buying. She also makes it known that instead of being only a regional player with international impacts, China now comes on to the international stage an assertive driver of world affairs including international financial issues. For that matter, more related details follow in a later section.

The most important dimension of China's strategy for crisis management is perhaps the overwhelming emphasis placed on boosting domestic demand. Chinese

economists have long realized that the structure of the Chinese economy is biased and domestic demand accounts for too small a proportion in economic growth (Yu, 2009). Measures have been taken by the Chinese government to redress this structural imbalance in the recent past but with limited success since localities find it easier to boost growth by undertaking large capital goods investment (Woo, 2007). The outbreak of the global financial crisis highlights the utmost importance of stimulating domestic demand, which also gives the central government a timely opportunity to persuade local leaders not to overinvest (Hu, 2008). Consequently, boosting internal demand has become a central ingredient of China's battle plan for alleviating the crisis effects (Woo, 2009a, 2009b). This puts China on a sound foot for balanced growth and provides a fine example of how China turns a crisis into opportunity. For one thing, increased domestic demand can compensate for export shrinkage caused by the world downturns. More important, it represents a sensible way to redress the overreliance on investment in fixed capital as the chief source of growth. Raising the contribution from domestic demand to growth can secure for China a more balanced economic structure. This serves to improve the long term health of the economy and opens the avenue for sustainable growth.

In short, China views the current global financial crisis as a product of American making, made possible by flaws in the international economic and financial architecture and policy mistakes within the US including relaxed financial regulation and excess financial engineering on Wall Street. The crisis and its fallout could be serious enough but may not be as bad as the great depression in the 1930s. The imbalanced domestic structure of growth will exacerbate China's susceptibility to external adverse shocks and the global downturn. The vast crisis effects therefore

warrant all-out warfare for China to combat the devastating crisis consequences. To mitigate the crisis effects, Chinese efforts are first focused on containing the immediate effects of the crisis, with a view to preventing from sparking a twin crisis, a crisis first in the real sector and then spreading to the banking sector. In the meantime, China is pro-actively looking for opportunities to establish new or wider access to resources and technology. Ultimately, China's success hinges on her endeavor of boosting domestic demand to compensate for the decline in export in the near term and in the longer run to redress the imbalance in the economy to secure sustainable growth.

III. Deployment of Financial Policy in the Crisis

Management

In response to the crisis and the resultant global downturn, China has launched a comprehensive relief package (Sharma, 2009). This comprehensive plan embraces four broad categories of measures that target at stimulating domestic demand by pump priming a large amount of government funds (RMB 4 trillion Yuan) together with a tax reduction to accomplish three objectives: to reformulate technological upgrading plans for a large range of industries to enhance competitiveness; to greatly fortify scientific supports for innovations with Chinese-owned intellectual property rights so as to increase future growth potential, and to significantly increase the level of protection provided by the social security system and to expand employment in the city and countryside (Wen, 2009).

In this grand plan, financial policy is charged to play a pivotal role. Broadly speaking, financial policy in China consists of policy measures in the fiscal and monetary sectors. The fiscal policy concerns allocation of funds from central budgetary coffers to government desired projects. The monetary policy is tasked to promote economic growth through maintaining a stable price level for which financial stability is the foundation (Geiger, 2006, Lardy, 2008). The actual Chinese response to the crisis therefore can be summarized by the deployment of fiscal stimulus and a monetary policy that is consistent with and supplementary to the expansionary fiscal policy.

Many major economies have poured money into the banking sector to bail out the troubled banks and help beat the credit crunch. It turns out that many of the funds are misused for board room bonus or flow to foreign institutions not into the domestic economy. The prominence of the Chinese crisis management is the adoption of a comprehensive stimulus package at a very early stage, one of the earliest in the world to put up such a large scale preemptive fiscal scheme. And this package is adamantly targeted at the real economy, especially investment in infrastructure.

On 9 November 2008, the Chinese government announced a stimulus package of RMB 4 trillion Yuan for real sector investment projects, mostly of infrastructure, for 2009 – 2010 (Maidment, 2008). The package features a strong hint of Keynesian intervention and is mainly intended to beat the global downturn by stirring up growth through pump priming real sector projects with fiscal funds. Estimates of the intended

projects and their outcome vary, but it is widely believed the package can have a positive impact on China's output growth and employment.

He, et al. (2009) present the breakdowns of the fiscal package according to available public information. See Table 1 below. It can be seen that the funding under the fiscal stimulus package is mainly focused on construction and other general projects of social infrastructure.

Table 1. Components of the Fiscal Stimulus Package

Item	Amount (RMB, bn)	Share (%)
Transportation and power grids	1,800	45.0
Post-earthquake reconstruction	1,000	25.0
Rural infrastructure	370	9.25
Environment projects	350	8.75
Public housing	280	7.0
R&D	160	4.0
Healthcare and education	40	1.0
Sum	4,000	100

Source: Table 2 of He, et al. (2009), which is based on a press conference release by Mr Ping Zhang, head of National Development and Reform Commission, 27 November 2008.

In line with the interventionist fiscal policy, China's monetary policy becomes expansionary as well. China had been in a battle with deflation for quite some time

before 2002 (Pen et. al., 2006). However, by the end of that year the Chinese economy however started to pick up, and by the second half of 2003, economic indicators even showed that the economy was overheating, which became clearer in 2004 (Geiger, 2006). To restrain overheating, the Chinese central bank started to tighten money supply in the third and fourth quarters of 2003. The whole year of 2004 saw increased intensity of monetary tightening. In the first half of 2005, economic growth showed signs of sliding, which forced the central bank to ease the tightening. However, the overheating was rekindled in the later part of 2005, and further powered into 2006 and 2007 to reach a record degree (He, et. al., 2008a, Zhang, 2008, Yu, 2009). The Chinese monetary policy thus was captured in a repeated battle to deflate the economy, and the Chinese monetary authorities tended to be highly cautious in pouring money into the economy for fear of rekindling inflation (Li 2009a). This policy stance continued into 2008, until the third quarter of that year when the Chinese economy suddenly lost its steam and the threat of inflation evaporated overnight because of a combination of forces at work at that juncture. The main factors were the facts that previous deflationary policies started to deliver and the global downturn had set in to bite (Yu, 2009).

Starting in July 2008, China changed gear in a major way, which rendered the Chinese monetary policy riding on a rollercoaster during the year. In the first half of 2008, China raised the interest rate 5 times consecutively amid the fear of inflation and asset market bubbles becoming out of control. On 16 September, one day after Lehman Brothers declared bankruptcy, China reduced the interest rate which heralded rate cuts

in subsequent months. With these cuts, China's conduct of monetary policy has undergone fundamental changes (Mu, 2008).

As part of this monetary change, the stance of China's monetary policy has changed from "guard against overheating and inflation" in the earlier years, to "be precautionary with flexibility", and then finally to "ease appropriately" in late 2008.

The People's Bank of China (PBOC), China's central bank, first scaled back the sterilization operation on the open market in June 2008 by halting the issuing of three year central bank bills. In addition, it lowered the frequency of issuing one year and three month central bank bills. The interest rate of the central bank bills at issuance was also reduced in a measured way. These actions were designed mainly to enhance supply of liquidity to the circulation.

Then from September, the central bank started to cut back the base rate and to reduce the ratio of required reserves. The base rate was cut in five consecutive rounds, resulting in the one year primary lending rate declining by 2.16%, and the one year savings rate dropping by 1.89%. The required reserve ratio was sequentially cut by four times. The intention of these actions was to give a strong signal to the financial market that the monetary policy now had shifted to promoting economic growth and to seeking financial market stability by guarding off downside risks. Along with ceasing to issue three year central bank bills, the central bank scaled down the

intensity of its open market operations to further increase liquidity of the financial markets.

On the credit front, the central bank abolished restriction on commercial banks lending plans. While certain types of loans were kept restricted, loans for earthquake reliefs, agricultural projects and small and medium sized enterprises were encouraged. Currently, credit provisions for restructuring the economy and technological upgrading are to be guaranteed and promoted. To boost the housing market, the Chinese monetary authorities have also lowered the floor allowed for downward floating of the mortgage rate and provided support for first time buyers to buy a house and for home improvement.

One endeavour by the Chinese central bank is the perfection of the bond market which is critically important for the completeness of China's financial market system. The improvement program includes increasing the size of inter-bank bond issuance to enhance the funding role of this inter-bank market, development of a variety of debt instruments for non-financial firms such as short-term papers and intermediate notes to widen enterprise funding channels. The program also seeks to improve service infrastructure of the inter-bank market.

These policy actions can be summarized as the Chinese version of monetary stimulus.

The distinct feature of the Chinese enterprise is that it targets exclusively at

productive and service projects that are believed to be beneficial for boosting domestic demand, rather than throwing money to thaw the freezing of the inter-bank market or bail out troubled financial institutions.

Whereas China's fiscal stimulus package made headlines around the world, the monetary stimulus largely went unnoticed by international commentators. However, in all honesty, the Chinese monetary stimulus is actually much greater than the fiscal stimulus and is more front-loaded.

For the fiscal stimulus, until March 2009 the disbursement by the central fiscal authorities to projects under the 4 trillion Yuan stimulus package is only 130 billion Yuan. In comparison, the magnitude of credit expansion is much greater. The monetary stimulus or the quantitative easing started in November 2008 with immediate effect. As a result, new loans in November 2008 dramatically increased from 181.9 billion Yuan in October to reach 476.9 billion Yuan and 740 billion Yuan in December. Entering 2009, this was to further increase sharply. New lending made a record in January to reach 1.62 trillion Yuan, doubling the highest monthly level in history. Then in February new loans continued this growing trend to reach 1.07 trillion Yuan. The market was even more surprised by the news that new loans made in March were 1.89 trillion Yuan. For the first quarter of 2009, total new loans

reached 4.59 trillion, almost at par with the total new loans of 2008. The monthly average lending during December-February would reached 1.51 trillion Yuan, three and half times the average of the same period in the previous year (December 2007- March 2008). This pace of monetary expansion is higher than even the boldest expectations (Sun, 2009).

Another aspect of the Chinese quantitative easing is that the monetary stimulus as currently deployed can be highly front-loaded. The projects covered by the fiscal stimulus package are mostly green-field investments, usually taking a long time to construct and to come into operation. But the projects that are helped by the monetary stimulus are of a quite different nature. The majority of them are existing state firms and the funding they obtained is largely for working capital needs. So the monetary stimulus can soon translate into a surge of demand for raw material and new labor. It follows that China's monetary stimulus is not only more powerful than the fiscal stimulus in terms of the funding size, but it could also be quicker to induce its effects on reviving economic activity.

In short, in the face of financial crisis, the focus of China's monetary policy has shifted from keeping guard against inflation to appropriate easing of credit controls. This shift leads to substantial rate cuts, measured quantitative expansion of credit provision, actions for thawing or preventing inter-bank market freezing and widening

of enterprises funding avenues. The new policy regime has a consistent mission, in its own right and by way of supplementing the fiscal stimulus package, to stir up growth through stimulating domestic demand. The target growth is the minimum level that is needed for China to avoid large-scale job losses and social unrest.

IV. International Dimensions of China's Monetary Response

International dimensions of China's monetary policy in relation to dealing with the global crisis are of particular note. In this area, the first issue that has captured international attention is the huge foreign reserves that China has accumulated over the years. The colossal funding pool provides China with sufficient self insurance against potential adversity of external and/or internal shocks. The current global financial crisis timely demonstrates the usefulness of this war chest in China's fighting back against the crisis. Internationally, the cash mountain that China sits on makes her a much sought-after financier of the world, which has dramatically raised China's international profile. Movements of China's reserve policy become a vital parameter of international investment. They now are also a great policy concern to political leaders around the world, particularly at the White House (Morrison, 2008, Setser, 2009). To be sure, from time to time Chinese officials would make splashes in international financial markets in relation to possible changes to her reserve management. China has been careful not to indulge in actions that may be disruptive to the working of international financial markets including those of American

treasuries and agencies. This is a manifestation of China's reserve management policy which seeks, in this order, the "safety, liquidity and profitability" of reserve holdings. In other words, China's position on international reserves is to use them as self insurance rather than an avenue for international leverage. Within this framework and if safety of her foreign assets can be assured, China can be cooperative with needy countries by providing financial support to them through international financial organizations (Wen, 2009).

Related to this is China's vision for reforming the international financial architecture (Pan, 2009). This is centred on the role of the US dollar since the bulk of China's foreign reserves are held in dollars, which in turn is the key currency of the existing international financial system. China has often complained about the dollar's volatility and has increasingly been vocal about relying on the dollar as the key currency of the international financial system. Since the outbreak of the current crisis, China has repeatedly expressed concerns about Washington's spending extravaganza in the name of bailing out troubled American banks and the car industry, etc. The primary fear of China is that this excess monetary expansion could damage the value of the dollar, hence erode China's wealth in US assets and cause disruption to international financial markets which ultimately would harmfully affect China (Green, 2009).

In a surprising move on 23 March 2009, Chinese Central Bank Governor Zhou Xiaochuan posted an essay on the central bank's website entitled Thoughts on

Reforming International Financial System. With an international audience as its main target, the article claims that the current crisis proves it is dangerous to rely on one single currency that is at the will of a national state's credit position. Governor Zhou illustrates that the primacy of the US currency in the financial system had led to an increasing frequency of financial crises since the collapse in the early 1970s of the system of fixed exchange rates. According to the Chinese governor, ideally, the dollar is to be eventually replaced by the Special Drawing Right (SDR), which was created as a unit of account by the IMF in 1969. The role of the SDR has not been put into full play, due to limitations in its allocation and the scope of its usage. However, it serves as the light in the tunnel for the reform of the international monetary system. He therefore calls for a new global reserve currency under management of the International Monetary Fund (Zhou, 2009). The governor's call is widely interpreted as demanding a switch from the US dollar to an ultra-sovereignty world currency. However, given China's conservative position on the value of her foreign reserves, it is unlikely that at the moment and for the foreseeable future China would want to topple the role of the dollar as the world's key currency. What is likely is that China is pursuing a reform agenda that, for diversity and equality, the Chinese currency is being promoted as one of the international reserve currencies.

The third facet of Chinese monetary policy's international engagement involves the RMB exchange rate. China's exchange rate policy has been in the limelight in recent years (Woo, 2008). Since RMB's un-pegging from the dollar in June 2005, Chinese

currency has appreciated by 21%, which is not unsubstantial. During the current crisis, China has watched closely movements of international currencies and the RMB is mainly on the track of appreciation against the dollar. There were occasions in which Chinese currency depreciated from its previous levels, which caused an outcry in Washington. However, China has pledged that she will continue to reform her exchange rate policy following the principle that the reform has to be of own initiatives, controllable, and gradual. It has also been promised that China will move forward steadily along the road of increasing flexibility of the exchange rate system and improving the mechanism of exchange rate formation. The declared mission of China's exchange rate management is to keep the RMB exchange rate stable and at the rational and equilibrium level.

China has been urged to make substantial funding contributions to international rescue operations. One interesting proposal for answering this call is the Panda Bonds as discussed within China (Yu, 2008). These bonds are to be denominated in Chinese RMB and issued by non-residents of China. The buyers can be anyone who has RMB and is willing to buy at the specified terms of the bond. Foreign issuers may convert the RMB thus raised into US dollars from Chinese exchange authorities and the Chinese government would promise to guarantee the convertibility of RMB from this transaction against the dollar (Yu, 2008). The chief attraction of the proposed Panda Bonds is that it provides a feasible way of enhancing dollar liquidity internationally without increasing American money supply. As such, this scheme may ease

inflationary pressure in the US, since international issuers merely buy existing, rather than newly issued dollars from China with the RMB they raised from the Panda Bonds. China also gains from this proposal because it opens an alternative avenue for diversification of China's huge dollar reserves (Yu, 2008). This idea is not totally new since in October 2005 the International Finance Corporation and Asian Development Bank had issued RMB bonds of 1.13 billion and 1 billion Yuan, respectively, on the inter-bank bond market in China. However, given the tremendous funding needs of international rescue operations at this juncture, issuance of the Panda Bonds can be dramatically expanded in volume and in scope.

Available evidence suggests that China in principle is happy to make contributions to international relief operations (Pan, 2009, Li, 2009b). However, to China, these contributions have to be made through international organizations such as the IMF or the World Bank (Hu, 2009). In a recent paper in *The Times*, Mr. Wang Qisan, Chinese deputy prime minister in charge of financial issues, officially proposed that China may contribute funds to the IMF through subscribing to the debt it issued if the value of the principal can be assured and the investment can return reasonable interests. Specifically, he announces that if safety of the principal can be assured and can earn reasonable returns, China supports the motion to increase IMF's lending capacity and China is happy to discuss with parties concerned how the additional funds may be raised. China argues that the funds may be sourced according to the principle that all members have balanced rights and obligations and the method of financing can be

based on a combination of compulsory requirements of contribution and voluntary subscription. If it is difficult to increase IMF's quotas, the funding contributions can be made according to the current quota distribution. If funding from this source proves inadequate for the needs of international relief operations, the IMF may start to raise additional funds, which China would be prepared to purchase (Wang, 2009).

The Chinese promise indicates that, in the face of global financial turmoil, China intends to show that she is a responsible stakeholder of international financial stability. To this end, China is willing to financially support international relief operations for countries in crisis and the lending conditions can be generous since the loans are extended to prestigious international organizations. However, these Chinese funds are not intended as donations or grants to the IMF. The utmost important consideration for China is the safety of the principal and, for that matter, China would like to evoke protection of the IMF's conditionality. This explains why China is more positive to lending money to the IMF than to other institutions since the IMF's conditionality has proved to be a useful device which to some extent can safeguard the repayments of loans to sovereign borrowers. In the meantime, this move also represents China's further efforts of international diversification of her reserve assets.

Paralleling to her pledge to make substantial contributions to increase the IMF's lending capacity, China powerfully calls for reform to the international financial architecture. Central to this undertaking is enlarging the roles of developing nations in

the IMF's decision making process (Hu, 2008, Wang, 2009). One of the ways to increase the representation of developing countries is to reform the quota system of the IMF, which in turn determines funding contribution and voting power of each member. Chinese economic advisers made it clear that if the world's financial community wants China to play a more important role or contribute more, China needs more rights and voting powers in these organizations (Zhao, 2009). One Chinese government economist went even further to demand a doubt seat for China at the IMF (Yi, 2009). To accommodate China's demand, a change in the current power structure of international financial governance is unavoidable, in which case some countries will be affected as a result. However, China's request is generally regarded as a reflection of today's economic reality and its possible accommodation is not destructive. To many, it is inevitable and perhaps desirable for the world to incorporate the rising China into the existing structure of the world economy (McKinnon, 2009).

China's attitude towards a formal system of international policy coordination is a mixed one (Woo, 2009c). China has not been keen for a G-8 membership, fearing it might be counter-productive to unduly associate China with the world's richest nations. The burden that the membership of this club may bestow is simply too high. There are even fewer indications that China would formally accept the Sino- America G-2 title as this will gain China nothing but forces upon China more responsibilities than she can bear (see Wilder, 2009, for the discussion on G-2).

The recent G20 summit provides a window for the international community to observe China's vision for a world that needs change. In a press briefing on 23 March 2009, China outlined her "hopes" for the summit. The greatest expectation that China holds is that G20 nations can help boost confidence and improve coordination on economic stimulus policies in a global fight against the financial crisis. The Chinese spokesman appeals to G20 members to shore up the fight against protectionism and uphold their financial commitments to the world's poorer countries. Efforts should be made to achieve substantial progress in the reform of international financial institutions. The Chinese representative stresses that the reform should increase the representation and say of developing countries. By pressing world leaders for an overhaul of the global financial system according to her own agenda, China makes a statement that the rising China wants an international financial governance system that allows China to play an enlarging role.

However, rather than act as an economic superpower in waiting, the Chinese reaction to international calls for policy coordination has largely been unassuming. Other than giving measured support for international policy lending through the IMF, China has been careful not to commit herself too much. This is probably the case because China knows her limits, but fundamentally, the Chinese calculate that the nation as it is now has little to gain from international policy coordination (Corsetti, 2005).

In contrast, China has chosen to focus on regional cooperation proactively (Li, 2009c). As a spin-off of the Asian financial crisis in 1997-1998, Asian economies have strived to seek closer monetary cooperation among them (Genberg and He, 2007). This cooperation is founded on three pillars. The first is monetary cooperation for liquidity and balance of payments assistance, generally known as the Chiang Mai Initiative (CMI). It embraces the expanded ASEAN swap arrangements and the network of bilateral swap agreements between 10 ASEAN countries plus China, Japan and South Korea. The second pillar of Asian financial cooperation contains various policy forums and surveillance network. The third is the establishment of financing facilities such as the Asian Bond Fund (ABF) and the Asian bond market. China has been the chief promoter of the development of the East Asia financial cooperation architecture.

With the rapid development of global financial crisis, China has become more pivotal in promoting regional financial cooperation. On 5 May 2008, China, together with her Asian neighbours including Japan, Korea and 10 ASEAN countries, declared a plan to establish a common foreign reserves fund of 80 billion US dollars, of which China, Japan and Korea will contribute 80% in total. Chinese press portrays this as one step closer to an Asian Monetary Fund, helpful for Asian countries to deal with a financial crisis without over relying on the IMF's assistance. On 22 February 2009, China agreed to the expansion of this scheme to 120 billion dollars and signed her commitment to the Action Plan for Economic and Financial Stability in Asia (Zhang, M., 2009).

China has participated in the regional financial cooperation in other significant ways. On 12 December 2008, China signed a currency swap agreement with Korea in which the two parties may swap each other's currency at RMB 180 billion/Korean Won 38 trillion (about 2.83 billion USD). On 20 January 2009, the central bank of China signed a similar agreement with Hong Kong's monetary authority for currency swapping up to RMB 200 billion, and on 8 February 2009 signed an agreement with Malaysia Central Bank for a currency swap of RMB 80 billion Yuan/40 billion Malaysian ringgit (about 1.08 billion USD). Of note is the fact that in these agreements, the Chinese currency, rather than the dollar as in other similar swap agreements, is the vehicle and key currency.

It is not accurate to state that China has become a dominate power in Asian financial cooperation. However, she certainly is a major driving force of the process. The current global financial crisis has given renewed impetus to closer Asian financial cooperation and the Chinese role in this process can be reasonably expected to grow. With the rise of the Chinese currency RMB as an international currency for regional monetary cooperation architecture, the Chinese popular mediums are now even talking about the possibility of an optimal currency in Asia centred on, among other things, the RMB.

V. Concluding Remarks

The global financial crisis is hitting China hard. Exporting is shrinking, growth is slowing and jobs are suffering. As a result, social tensions are rising and questions have been raised as to whether globalization is beneficial to China and whether China's market oriented reform is putting the nation on the right track. The financial crisis therefore represents a great challenge for China to embrace globalisation. If overwhelmed by the current crisis, China would become a nationalist forte with mighty forces against globalization. Given the possible repercussions of this scenario, the world will be greatly affected by China's handling of the crisis.

China has been quick in responding to the crisis. In June 2008 when China was in the final and most crucial stage for putting up the Olympic Games show, the Chinese authorities started to formulate the plan for dealing with the crisis and its possible fallout. This shows that China realizes that the forthcoming financial turmoil is going to be serious with devastating consequences. The duration of the crisis is estimated to be moderate in that it will last for about two years. So, to the Chinese leadership, the crisis is going to be a serious disaster but not as bad as the great depression of the 1930s. For the specifics of the possible crisis attack, China judges that an America-type crisis is unlikely to happen in the country. Rather, the main threat would be that the Chinese real sector is being dragged down under by the adversity of the crisis, which in turn sparks a crisis in the financial sector. China's strategy for combating the crisis therefore is to deal with the immediate crisis effects in the real economy in the first place and to look for opportunities in the meantime. The

overwhelming emphasis is placed on expanding domestic demand to fuel growth.

Following this strategy to crisis management, China has rolled out a comprehensive package of combating measures. Central to the package is the role played by the financial policy, which has two planks i.e. the policy measures in the fiscal and monetary sectors. The fiscal expansion package hit the headlines around the globe with the intensity of government financial support for infrastructure and public service projects. The monetary stimulus comes to prominence in a slow process in which the stance of the Chinese monetary policy changed from being precautionary against inflation with flexibility to appropriate easing to promote growth. After several rounds of rate cuts, the Chinese version of quantitative easing has taken the central stage. The monetary stimulus proves more powerful than the fiscal counterpart and more front loaded. In China's battle with the financial crisis and the world downturn it has caused, the monetary stimulus is playing a leading role at the moment.

The international dimensions of China's monetary policy typify how China turns a crisis into a world of opportunity. China has taken a conservative approach to the management of her huge reserves. In this approach, China puts the safety of these reserves first, followed by considerations of liquidity and profitability and has been careful not to disrupt American financial markets. The position of China has consistently been that these international reserves are accumulated as self insurance

rather than an avenue for international leverage. Within this framework and if safety of these foreign assets can be assured, China can be cooperative in providing finance to countries in crisis through international financial organizations.

China is also relatively conservative in giving funding promises to international relief operation. In addition to the Panda Bonds, China makes it clear that the chief acceptable way of her making funding contributions to give financial support to countries in crisis is through international financial organizations. For this matter, China supports the motion to increase the IMF's lending capacity and possibly to buy the bonds it issues should the IMF need to do so.

China is actively calling for reform of international financial architecture. Chinese advisors have argued that the increase in China's funding contributions has to be paralleled by an increase in China's profile in the power structure in the IMF. In many occasions, China has acted as spokesman of the emerging and developing economies by making cases for increasing their say in world financial affairs. But on the whole, China has been cautious not to commit herself too much as she knows her limits, and she knows that she has little to gain from international policy coordination. As such, China has chosen to focus on regional cooperation proactively and considerable progress has been made in this area. China now plays a pivotal role in Asian financial markets and is the centre of gravity of Asian financial cooperation.

At first glance, China's dealing with the current financial crisis is unassuming. Not many innovations in her policy package and no generous offers have been made in response to international calls. What she has done so far are down-to-earth actions that are simple common sense. However, no country has done more than China has in stabilizing the real economy and the Chinese fiscal and monetary stimulus measures are classic examples of economic adjustment one may find under the international gold standard where economic discipline plus common sense have upper hands (Lard, 2009).

To what extent China has been successful in handling the adversity of the crisis is still to be seen. There is certainly a lot to be done for China to improve the economic structure, boost domestic demand, calm down the property market and, above all, to create millions of jobs (Woo, 2009a). These are no easy tasks, and the Chinese would probably never be able to declare a total victory on any of these matters. However, early signs have emerged that the worst perhaps has turned over and China is now on the way to see the recovery of the economy.

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Timeline of China's Crisis Fighting

Time	Events
June 2008	The earliest known time that the Chinese leadership ruled the forthcoming global financial crisis would hit China hard and actions need to be taken to mitigate the adversity
25 July	The Chinese Politibureau meeting set the tasks for economic works in the second half of 2008: Keep the economy growing smoothly and at a reasonably high pace while combating accelerating of inflation
31 July	Department of Finance and other government bodies jointly announced increasing the tax rebates of some textile and garment exports including silk, wool yarn, chemical fibres and cotton products, from 11% to 13%, effective from 1 August.
1 to 10 August	The central bank expanded the allowed credit size of commercial banks to alleviate financial difficulty and hard to obtain collateral problems of small and medium enterprises. It agreed to raise the 2008 credit quota by 5 percent for national commercial banks and 10 percent for local commercial banks. Minor adjustments were made to reflect differing conditions among local banks.
25 August	The head of Chinese Securities Supervisory Committee made no intention at all to disallow sales of non-tradable securities. The Chinese securities regulator also issued four measures to improve the dividend system
27August	The Chinese Securities Supervisory Committee formally published the revised Methods for Purchasing Listed Companies, which opened the way for big shareholders to increase stakes. Stake increases have become every day events since then, and more than 100 firms have witnessed increased stakes by big shareholders
16 September	The Bank of China decided to cut the base lending rate of financial institutions. The one year base lending rate of financial institutions reduced by 0.27 percentage point, from 7.47% to 7.20%. All the other tiers of lending rates were reduced accordingly. In the meantime, it cut back the mortgage loan rate for individuals, from 4.77% to 4.59% for 5 year-loans, a reduction of 0.18 percentage points. For mortgage loans longer than five years, the rate was reduced by 0.09 percentage point, from 5.22% to 5.13%. No change to the base rate of savings.
18 September	The Committee of State-owned Assets announced it would support central-controlled enterprises to increase holdings of listed firms or to re-purchase their shares. The Central Huijin Investment Company Limited was the first to buy shares of three banks, which are Bank of Industrial and Commerce, Bank of China, and Bank of Construction. Initial estimates suggest the Huijin had poured a total of 1.2 billion Yuan into these three share, with significant effect on supporting the share market.
19 September	Three pieces of good news emerged to promote the stock market. The stamp duty was from stock purchases, but it remained on sales at 0.1 percent. The State-owned Assets Supervision and Administration Commission said it would support centrally administered enterprises to increase holdings or repurchase shares of their listed subsidiaries. The Central Huijin company would buy shares of three major Chinese lenders on the secondary market to support their share prices.
22 September	The Chinese securities regulator published Supplementary Rules on Listed Firms Repurchasing Share through Centralised Bidding. Late on, Tianyin became the company that repurchased its shares on 31 October. Several others have followed suit.

25 September	The central bank announced that the required ratio of reserves for all deposit-taking financial institutions were to be reduced by one percentage point, except for the Bank of Industry and Commerce, the Bank of Agriculture, Bank of China, Bank of Construction, and the Bank of Communication,. Financial institutions in the earthquake hit areas would see their required reserve ratio being reduced by 2 percentage points.
5 October	The Chinese Securities Supervisory Committee declared it would soon start margin financing and securities lending on a trial basis. Eleven securities companies took part in a trial run on Oct. 25. This move effectively allowed the securities firms to short shares. Non-financial firms were allowed to float mid-term bonds as of Oct. 6 to help ease their financing difficulties.
8 October	The central bank announced that, effective on 15 October, all deposit-taking financial institutions' required ratio of reserves would be reduced by 0.5 percentage point.
9 October	The central bank announced, in addition to reducing required ratio of reserves, the base savings rate would be cut back from 4.14% to 3.87% for one year deposit. The one year base lending rate would be cut by 0.27 percentage point from 7.20 % to 6.93 %. All other tiers of lending and savings rates would be adjusted accordingly. The rate of personal mortgage provided by the Public Housing Fund was cut by 0.27 percentage point. In the meantime, income tax would be exempted for the interest earned from the settlement funds of securities market transactions by individuals.
17 October	The Executive Meeting of the State Council decided to adopt flexible and cautionary macroeconomic policies and to launch as soon as possible well targeted policies in the fiscal, taxation, credit and foreign trade sectors to keep the economy growing smoothly and at a relatively high pace. Prime Minister Wen Jiabao announced that the government would adopt comprehensive measures and allocate fiscal funds in the fourth quarter to expand domestic demand, improve living conditions and stimulate economic development.
20 October	The State Development and Reform Committee said it would continue to intensify its policy of strengthening and benefiting farmers, making full efforts to organize procurement of stable agricultural goods, raising by a relatively margin the minimum procurement price of grains, in order to increase subsidies to grain-growing farmers. It would convene a meeting to analyse economic and financial conditions and continue to guide financial institutions to increase their credit provisions to key areas or to-be-strengthened weaker areas such as projects concerning farmers, rural community and agricultural production, small and medium enterprises and rehabilitation of earthquake-hit areas.
21 October	The executive meeting of the State Council was held to analyze the ways to intensify construction of infrastructural projects. The meeting gave approval to a series of construction projects including projects of highways, airports, nuclear power stations, and pumped storage power stations. It was decided at the meeting that the construction of the middle and eastern lines of the South-to North Water Diversion Project should be quickened.
From 21 October	The Department of Finance and the State General Administration of Taxation jointly announced that, effective on 1 November, the tax rebates for exports would be raised appropriately. This covered labour-intensive goods such as textile, garments, and toys, as

	well as high-tech goods or goods with high value-addition. The next day, the Department of Finance announced that, to improve living conditions and expand domestic demand, the department would increase financial support to students in need, disabled or widowed persons, housing protecting, etc. It provided assurance of a basic living to people of low-income groups or people with special needs through increased input to projects that aimed at improving living conditions of these groups.
22 October	The People's Bank said that, effective on 27 October 2008, the allowable range for the downward floating of the rate of lending to personal housing on commercial terms to be expanded to 0.7 times of the base lending rate (meaning the floor for interest rates was lowered to 70 percent of the central bank's base rate). Meanwhile, the mortgage down payment was lowered from 20% to 30% for first-time buyers of residential houses smaller than 90 square meters. The lending rate of personal mortgage provided by the Public Housing Fund was accordingly cut by 0.27 percentage point.
25 October	Chinese Prime Minister Wen Jiabao said that China had adjusted macroeconomic policies to put as the top priority keeping the economy growing steadily and in the meantime to take care of the needs of containing inflation and balance of payments equilibrium.
30 October	The central bank decided to change both deposit and lending rates of financial institutions. The one-year base savings rate cut by 0.27 percentage point from 3.87% to 3.60%. The one year base lending rate was reduced by 0.27 percentage point as well from 6.93% to 6.66%. All other tiers of lending and savings rates would be adjusted accordingly. No changes to the rate of personal mortgage loans provided by the Public Housing Fund.
1 November	New tax rebates went effective for 3,486 export items, accounting for 25.8% of products covered by customs tariffs. Rebate rates run roughly from 9% to 14%.
9 November	The Chinese government launched large package to stimulate growth and employment. The package would spend 4 trillion Yuan (estimated US\$586 billion) by 2010 on infrastructure and social welfare projects, including constructing housing, rural infrastructure, railways, highways, airports, and rebuilding communities devastated by the earthquake in southwest China in May. At the same time, the government promised to reform the VAT system and the central bank was to promote bank lending to support growth, with priority being given to key projects of national importance. Also, the government formally changed the fiscal stance from "prudent" to "proactive" and the monetary policy stance from "moderately tight" to "moderately easy."
10 November	The government decided to roll out the reform of the VAT covering the whole nation. Under this reform, capital spending could be deducted from the VAT. This is in line with international practice and reduces the corporate tax burden by about RMB 120 billion (0.4 percent of GDP).
19 November	China rolled out 6 measures for promoting healthy development of light and textile industries.
26 November	The State Council mapped out six measures for helping enterprises solve the difficulties they were facing due to the financial crisis. Today, the People's Bank of China also decided that, from 26 November, the required ratio of reserves of big savings financial institutions to be lowered by one percentage point. These institutions include the Bank of Industry and Commerce, Bank of Agriculture, Bank of China, Bank of Construction,

	Bank of Communication and the Postal Savings Bank. For small and medium deposit-taking financial institutions, the required ratio of reserves is cut back by 2 percentage points. Preferential required ratio of reserves were continued to apply to financial institutions in the earthquake-hit areas and rural financial institutions.
27 November	The Chinese central bank decided to change the rates. For one year deposit rate, it was cut by 1.08 percentage points, downed from 3.60% to 2.52%. The one year lending rate dropped from 6.66% to 5.58%, also downed by 1.08 percentage points. Other tiers of lending and savings interest rates were subject to changes accordingly. The lending rate of five-year personal mortgage provided by Public Housing Fund was cut by 0.54 percentage points to reach 3.51%. For such loans whose maturity is 5 years or longer, the rate was cut back by 0.54 percentage points to 4.05%. In the meantime, the central bank's lending rates to financial institutions were reduced. Of these rates, the deposit rate for required reserves dropped from 1.89% to 1.62%, downed by 0.27 percentage points. The deposit rate for excess reserves declined from 0.99% to 0.72%, a reduction of 0.27 percentage point. The re-lending rate for one-year liquidity reduced from 4.68% to 3.60%, other re-lending rates were adjusted downward accordingly. The re-discount rate was downed from 4.32% to 2.97%.
3 December	The State council held its executive meeting to discuss and formulate 9 measures aimed at promoting economic growth through financial channels.
10 December	The State Council made arrangements for farming work and decided to increase subsidies for agricultural machines and equipment purchased by farmers.
17 December	government rolled out a reform program for reforming the prices of oil products, and related taxes and fees. Arrangements were also made to map out measures to promote healthy development of the property markets.
20 December	The General Office of the State Council issued Opinions on Promoting Healthy Development of the Property Market. The Opinions have 6 sections and 13 clauses. It stressed that greater efforts must be made to intensify construction of housing for social security. The government made further clarification to its position that consumption of common commercial housing is to be encouraged. Property firms should be responsive to market changes and should take initiatives to promote sales of commercial housing at reasonable prices. The responsibility of local governments in stabilizing the property market is to be stressed. Monitoring of the property market should be intensified.
22 December	The Chinese central bank decided to lower the required ratio of reserves by 0.5%, effective 25 December 2008.
23 December	The Chinese central bank decided to change the base rates of deposits, lending and the central bank's re-lending and re-discount rates to financial institutions. The one year deposit rate was cut by 0.27 percentage points, downed from 2.52% to 2.25%. The one year lending rate dropped from 5.58% to 5.31%, also downed by 0.27 percentage points. Other tiers of lending and savings interest rates were subject to changes accordingly. The lending rate of less than five-year personal mortgage loans provided by Public Housing Fund was cut by 0.18 percentage points to 3.33%. For 5 years or longer of such loans, the rate was cut back by 0.18 percentage points to 3.87%. In the meantime, the central bank's lending rates to financial institutions were reduced. Of these rates, the re-lending rate for one-year liquidity reduced from 3.60% to 3.33%, a reduction of 0.27

	percentage points. The one-year re-lending rate to rural credit society (excluding emergent loans) was reduced from 3.42% to 2.88%, a decline of 0.54 percentage point. Other ties of re-lending rates were adjusted downward accordingly. The re-discount rate was downed from 2.97% to 1.80%, a cut of 1.17 percentage point.
24 December	The executive meeting of State Council analyzed and then made arrangements for adopting measures to revitalize goods distribution, expand consumption and maintain stable growth of foreign trade. Also considered are the measures for ensuring production and supply of fertilizers and to promote reform and development of the fertilizer industry. The executive meeting also examined and passed in principle the special major science and technology program for computer numerically controlled machine tools and basic manufacturing equipment.
31 December	The Chinese government proclaimed the Views about Reviving Distribution and Expanding Consumption, according to which the campaign of sending household electronic goods to the countryside would be extended from more than 10 provinces to the whole county. In the meantime, motor bicycles, computers, hot water machines (including all types powered by solar energy, gas and electricity), and air conditioners were now included in the list to qualify for receiving policy subsidies.
1 January 2009	China abolished quantity controls and licensing management for textile exports to USA and licensing management of textile exports to Europe. Enterprises are no longer subject to examination of operational quality and qualifications.
7 January	In the face of a grimy job market, the State Council discussed and formulated seven measures for intensifying works in relation to graduates' employment.
Mid- January to end of February	Successive executive meetings of the State Council had been held to examine and pass the program for adjustment and revitalization of ten industries. These include the car industry, and industries of steel, textile, equipment manufacturing, ship building, electronics and information, household goods, oil and related chemical, non-ferrous metal, and goods distribution. Details of the programs are being drafted out and will be launched in due course. Various locations and departments were taking measures complementary to the programs, including schemes of consumption coupons and training vouchers.
4 March	Chinese leaders appealed to the non-state owned economy to avoid laying-off workers, reducing salaries and delaying their pay.
6 March	The Department of Commerce adjusted authorization power allowance in the Notice about Delegating the Examination and Approval Power for Foreign Invested Companies to Set Up Investment Firms, effective immediately. According to this notice, for investment firms established by foreign investors with a capitalization less than 100 million US dollars, their establishment and changes are to be approved by provincial level commerce bureau. The provincial commerce bureau should not delegate the power further down.
17 March	The Department of Finance said that China will allow issuance of local government bonds for the first time across the country. The Department of Finance will issue such bonds totalling 200 billion Yuan on behalf of local governments, with maturity of 3 years. The bonds are open to all investors. The Department of Commerce, Department of Finance, People's Bank of China, Banking

	<p>Regulatory Commission and the State Insurance Regulatory Commission jointly issued Views on Promoting Healthy Development of Credit Sales. The notice advocates using credit sales as an important avenue for expanding domestic demand to ensure economic growth. Powerful measures should be taken to proactively promote such sales.</p> <p>The State General Administration of Taxation extended the preferential tax treatment for re-employment. With a certificate of re-employment, a person undertakes an individual business operation can enjoy tax cuts up to 8000 Yuan for three years, in relation to the business tax, tax for city construction and maintenance, educational surtax and surcharge, and personal income tax.</p>
19 March	The central bank issued 10 billion Yuan central bank bills on the open market.